

**BEFORE THE STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES**

IN THE MATTER OF THE RATE UNBUNDLING) BPU Docket Nos.
FILINGS BY GAS PUBLIC UTILITIES) GX99030121
PURSUANT TO SECTION 10, SUBSECTION A)
OF THE ELECTRIC DISCOUNT AND)
ENERGY COMPETITION ACT OF 1999)
SOUTH JERSEY GAS COMPANY) GO99030125

DIRECT TESTIMONY OF

**RALPH MILLER
CONCERNING**

SOUTH JERSEY GAS COMPANY

Filed on Behalf of

THE NEW JERSEY DIVISION OF THE RATEPAYER ADVOCATE

**Blossom A. Peretz, Esq.
Director and Ratepayer Advocate
31 Clinton Street, 11th Floor
P.O. Box 46005
Newark, New Jersey 07101
(973) 648-2690 - Phone
(973) 624-1047 - Fax
www.njin.net/rpa
njratepayer@rpa.state.nj.us**

Filed: July 26, 1999

1 Q. PLEASE STATE YOUR NAME, OCCUPATION, AND ADDRESS.

2 A. My name is Ralph E. Miller. I am an independent consulting economist. My office is at
3 5502 Western Avenue, Chevy Chase, Maryland 20815.

4 Q. WHAT IS THE PURPOSE OF THIS TESTIMONY RELATING TO SOUTH JERSEY
5 GAS COMPANY?

6 A. I was asked by the Division of the Ratepayer Advocate to present testimony on some of
7 the generic issues affecting all four New Jersey gas utilities in these unbundling
8 proceedings, and also to present testimony relating specifically to South Jersey Gas
9 Company. This testimony relates only to South Jersey Gas Company. It addresses the
10 Company's compliance with the Board's procedural orders for the implementation of
11 complete unbundling and other requirements in the Electric Discount and Energy
12 Competition Act ("Act"). It also addresses other issues arising from the Company's
13 testimony and exhibits filed April 30, 1999. My qualifications are in my generic testimony,
14 which is intended to be applicable to the proceedings involving each of the four New
15 Jersey gas utilities.

16 Q. HAS SOUTH JERSEY COMPLIED WITH THE BOARD'S PROCEDURAL ORDERS
17 FOR COMPLETE UNBUNDLING AND OTHER REQUIREMENTS IN THE ACT?

18 A. South Jersey Gas Company has complied with some of these requirements, but there are
19 also some areas in which it is deficient. These deficiencies should be remedied by South
20 Jersey in its rebuttal testimony so that other parties can review the Company's position on
21 them in time to present our views on all the required issues at the hearings on this case.

22 Q. CAN YOU IDENTIFY SOME AREAS IN WHICH SOUTH JERSEY HAS NOT YET
23 COMPLIED WITH THESE REQUIREMENTS?

1 A. Yes. Although South Jersey does propose to offer all customers the opportunity to
2 choose an alternative supplier of gas, its tariffs for gas sales service remain fully bundled.
3 The rates for sales service encompass both gas supply and gas distribution service, and
4 there is no practical way for customers to disentangle these two major components of
5 South Jersey's total sales service package. South Jersey's proposed rates for basic gas
6 supply service are its rates for the bundled gas sales service, including the costs of gas
7 distribution, whereas the Act states (in section 3) that gas supply service “does not include
8 any regulated distribution service”.

9 Q. CAN YOU PROVIDE AN OVERVIEW OF THE ISSUES YOU ADDRESS IN THIS
10 TESTIMONY?

11 A. Yes. I recommend changes to the structure of South Jersey's tariff to make it easier for
12 customers to understand the unbundling required in this proceeding. I also recommend
13 a more complete unbundling of gas supply services than is proposed by South Jersey, so
14 that aggregators and marketers serving South Jersey's residential and small commercial
15 customers will have the opportunity to supply their load requirements on a daily basis
16 instead of being required to purchase comprehensive balancing services from South Jersey
17 itself.

18 A very important issue is South Jersey's policy on pipeline capacity and capacity
19 assignment, which reflects South Jersey's unique perception of its role as supplier of last
20 resort. This policy is inconsistent with the goal of establishing gas supply competition, and
21 I recommend changes to South Jersey's policies on pipeline capacity that are needed to
22 achieve the goal of gas supply competition.

1 I also address South Jersey's proposed Societal Benefits Charge and its proposal to
2 establish an “Unbundling Transition Charge.” The latter includes a provision for recovery
3 of alleged gas supply stranded costs which is far too broad, and I recommend that it be
4 eliminated or modified.

5 **Service Offerings and Tariff Structure**

6 Q. CAN YOU DESCRIBE THE CUSTOMER CLASS STRUCTURE OF SOUTH
7 JERSEY'S TARIFF, AS IT NOW EXISTS?

8 A. Yes. South Jersey has four major classes of firm customers: residential, general service,
9 large industrial, and cogeneration. Residential gas sales service is provided under rate
10 schedule RSG (Residential Service). South Jersey also has a pilot program for providing
11 distribution service to residential customers. It is offered to a limited number of RSG
12 customers under rider “H” (Residential Transportation Clause – RTC).

13 For the general service customer class, gas sales service is provided under rate GSG
14 (General Service). Gas distribution service is available to all general service customers
15 under rate GSG-FT (General Service Firm Transportation). General service customers
16 whose usage averages at least 100 Mcf per day on an annual basis can instead take
17 distribution service under rate CTS (Comprehensive Transportation Service), which
18 requires a minimum daily contract demand of 100 Mcf.

19 Large industrial customers with a minimum average firm daily usage and a contract
20 demand of at least 200 Mcf can obtain gas sales service under rate LVS (Large Volume
21 Service) and gas distribution service under rate LVS-FT (Large Volume Service Firm
22 Transportation). Large cogenerators with a firm daily contract demand of at least 200 Mcf

1 can obtain gas sales and/or distribution service under rate LVCS (Large Volume
2 Cogeneration Service). Rate FES (Firm Electric Service) is available for firm gas sales and
3 gas distribution service to electric utilities. South Jersey has only one FES customer, and
4 it is served under a special contract.

5 Q. DOES SOUTH JERSEY OFFER OTHER FIRM SERVICES?

6 A. The only other firm services offered by South Jersey are rates CS (Cogeneration Service),
7 YLS (Yard Lighting Service), and SLS (Street Lighting Service). The total quantity of
8 service provided by South Jersey under these three rate schedules in 1998 was only 42,000
9 Dt, which is less than 0.1% of South Jersey's total retail service.

10 Q. WHAT INTERRUPTIBLE SERVICES DOES SOUTH JERSEY OFFER?

11 A. Interruptible gas sales service for firm general service and firm large industrial gas sales
12 customers is available under rates LMS-GS (Load Management Service – General Service)
13 and LMS-LV (Load Management Service – Large Volume). Interruptible gas sales
14 service is available to other customers under rate IGS (Interruptible Gas Service).
15 Interruptible gas transportation is available to all classes of customers, including those who
16 also take firm service, under rate ITS (Interruptible Transportation Service).

17 Q. HOW MANY OF SOUTH JERSEY'S CUSTOMERS HAVE ALREADY BEEN
18 ATTRACTED TO GAS DISTRIBUTION SERVICE?

19 A. South Jersey has approximately 240,000 residential customers and total residential
20 throughput of approximately 19 million Dt. Of that total, approximately 22,000
21 customers, or 9%, were enrolled in the pilot distribution program as of May 1999.

22 South Jersey has approximately 19,000 firm general service customers, and their
23 annual firm throughput is approximately 11 million Dt. Approximately 15% of these

1 general service customers were using distribution in 1998, but the distribution customers
2 were much larger than the typical general service customer on the South Jersey system,
3 and they represented more than half of the total general service throughput.

4 South Jersey has approximately 20 firm large industrial customers, and their annual
5 firm throughput is approximately 8 million Dt. These large industrial customers also use
6 a large quantity of interruptible gas service. All or almost all of South Jersey's large
7 industrial load switched from sales to distribution service many years ago.

8 All three of South Jersey's large cogenerators use distribution rather than gas sales
9 service. Their annual throughput is approximately 6 million Dt. South Jersey's one FES
10 customer takes approximately 3 million Dt of gas service per year. It is a combination of
11 gas sales and distribution.

12 South Jersey typically provides somewhere in the neighborhood of 10 million Dt of
13 interruptible service, but the quantity varies from year to year. Almost all of it is
14 distribution, not sales, and has been for many years. However, there remains a small
15 quantity of LMS-GS interruptible gas sales service.

16 Q. WHAT CHANGES IN THE CUSTOMER CLASS STRUCTURE OF ITS TARIFF IS
17 SOUTH JERSEY PROPOSING IN THIS PROCEEDING?

18 A. South Jersey is proposing one such change, which is the creation of a separate rate
19 schedule RSG-FT for Residential Service Firm Transportation. This new rate schedule
20 would replace the present rider "H" Residential Transportation Clause, and it would be
21 open to all residential customers.

22 Q. WITH THIS CHANGE, WILL ALL OF SOUTH JERSEY'S RETAIL CUSTOMERS BE
23 ABLE TO CHOOSE AN ALTERNATIVE GAS SUPPLIER?

1 A. Yes, except that the present yard and street lighting customers, who take service under
2 rates YLS and SLS, and the small cogenerators taking service under rate CS would have
3 to transfer to the general service distribution rate GSG-FT to obtain firm transportation
4 service.

5 Q. DOES SOUTH JERSEY'S PROPOSED TARIFF STRUCTURE SATISFY THE
6 RATEPAYER ADVOCATE'S GENERIC RECOMMENDATIONS THAT THE PRICES
7 FOR GAS SUPPLY AND GAS DISTRIBUTION BE STATED SEPARATELY, AND
8 THAT A CUSTOMER SHOULD BE ABLE TO CHOOSE AN ALTERNATIVE GAS
9 SUPPLIER WITHOUT CHANGING HIS DISTRIBUTION SERVICE?

10 A. No, it does not. All of South Jersey's firm gas sales rates — RSG for residential
11 customers, GSG for general service customers, and LVS for large industrial customers —
12 are completely bundled gas sales rates. They have neither a separate gas supply charge nor
13 a separate distribution service charge, but instead a listing of various prices that encompass
14 both gas supply and distribution service. Also, a customer wishing to choose an
15 alternative gas supplier must transfer from his bundled gas sales service rate (*e.g.*, GSG)
16 to the corresponding firm transportation rate (*i.e.*, GSG-FT).

17 Q. DO YOU RECOMMEND ANY CHANGES TO THE STRUCTURE OF SOUTH
18 JERSEY'S TARIFF IN THIS REGARD?

19 A. Yes. South Jersey should continue to offer a single residential rate RSG for all residential
20 gas service. This rate should be unbundled to state separate charges for gas distribution
21 service and gas supply service, and the gas supply service should be optional so that any
22 customer that wishes to do so can choose another gas supplier besides South Jersey.

1 The existing general service sales and firm transportation rates GSG and GSG-FT
2 should be combined into a single rate GSG along the same lines — with separately stated
3 charges for gas distribution service and for a gas supply service that each customer may
4 elect or decline. It would also be appropriate to combine the present LVS and LVS-FT
5 rates for large industrial customers, but such a change would be of little consequence for
6 the unbundling process because all of the approximately 20 large industrial customers are
7 already using distribution service under rate LVS-FT.

8 Q. WHAT BENEFITS WOULD THESE RECOMMENDED CHANGES IN THE
9 RESIDENTIAL AND GENERAL SERVICE TARIFF STRUCTURE PROVIDE?

10 A. They would make it easier for customers to engage in comparison shopping between
11 South Jersey's gas supply service and similar services offered by other providers. My
12 recommendations on the substance of South Jersey's services are discussed below.

13 Q. HOW DOES THE COMPREHENSIVE TRANSPORTATION SERVICE RATE CTS
14 FIT INTO THE NEW GENERAL SERVICE TARIFF STRUCTURE WHICH YOU
15 ARE RECOMMENDING?

16 A. Rate CTS is a second distribution service available to some, but not all, general service
17 customers. The principal difference from the regular general service rate GSG-FT is the
18 rate design. Rate CTS is a three-part rate, with most of the distribution service cost paid
19 in the form of a demand charge, and only a small commodity charge. Rate GSG-FT, in
20 contrast, has only two parts — a customer charge and commodity charges. The offering
21 of an additional distribution rate such as rate CTS is consistent with the general principle
22 of unbundling because CTS is another unbundled distribution service, albeit one without
23 a coordinated gas supply offering from South Jersey. A customer electing the CTS rate

1 therefore must choose an alternative gas supplier, but I do not see this requirement as
2 conflicting either with the Act or with appropriate policy on the unbundling issue.

3 Q. ARE YOU RECOMMENDING THAT THE LARGE VOLUME COGENERATION
4 (LVCS) AND FIRM ELECTRIC SERVICE (FES) RATES BE UNBUNDLED IN THE
5 SAME WAY AS THE RESIDENTIAL AND GENERAL SERVICE RATES?

6 A. Not for the customers currently on these rate schedules. These rates serve only four very
7 large customers, and each has a complex special contract. Each customer has been able
8 to choose between sales and distribution service, and each has selected an alternative
9 supplier for all or part of its gas supply requirements. Also, changes to the rate schedules
10 would necessitate a review of, and probably changes to, the special contracts used by these
11 customers on these rate schedules. A further unbundling of these two rate schedules at
12 this time would thus serve no useful purpose for these four customers. Existing customers
13 taking service under these rate schedules should be grandfathered. However, for possible
14 new customers these rate schedules should be reviewed in the context of the new
15 competitive environment. As a result of the recent electric restructuring proceeding, it is
16 expected that numerous gas-fired cogeneration facilities will be built, resulting in increased
17 gas use. South Jersey should establish unbundled rates for these facilities and be required
18 to file with its rebuttal testimony a cost-based proposal to address these rate schedules
19 going forward, for new customers.

20 Q. CAN YOU PROVIDE MORE DETAIL ABOUT YOUR RECOMMENDED CHANGES
21 TO THE RESIDENTIAL AND GENERAL SERVICE TARIFF STRUCTURE?

22 A. Yes. Table REM-SJG-1 contains a more detailed list of these recommendations.

1 **Fully Unbundled Service Options**

2 Q. DOES SOUTH JERSEY OFFER FULLY UNBUNDLED DISTRIBUTION SERVICES?

3 A. It does to some customers, but not to others. The only distribution service that South
4 Jersey offers to its large customers — defined as those whose average daily usage exceeds
5 200 Mcf — is a fully unbundled distribution service in which the customer is nominally
6 required to achieve a daily balance between his loads and the gas supplies delivered to
7 South Jersey's city gates for his account. The balancing requirements for this service are
8 stated in rider “I”.

9 For residential customers, in contrast, South Jersey's only distribution service offering
10 is a monthly DCQ (daily contract quantity) service in which distribution service is bundled
11 with balancing performed by South Jersey. Each customer's aggregator or marketer is
12 required to deliver a DCQ equal to the customer's levelized average daily normal weather
13 requirements on a monthly basis. All of the customer's load swings above and below this
14 DCQ are served by South Jersey. The delivery and balancing requirements and the
15 definition of the DCQ are found in rider “J”. Some of the Special Provisions in rates
16 RSG-FT and GSG-FT contain further detail on these matters, but mostly they duplicate
17 the information in rider “J”.

18 General service customers can choose between the fully unbundled distribution service
19 with its daily balancing requirement under rider “I” and the partly bundled DCQ service
20 with comprehensive balancing provided by South Jersey under rider “J”. In practice,
21 however, the DCQ service is the only economic one for small customers because daily
22 balancing requires electronic metering, which is provided to general service customers only
23 at the expense of the customer. On the other hand, the CTS service available to large

1 general service customers is as fully unbundled as the distribution services for industrial
2 and electric generation service, with a daily balancing requirement.

3 The distribution service that South Jersey offers to its interruptible customers is also
4 a fully unbundled gas distribution service.

5 Q. DO THESE SERVICE OFFERINGS ACHIEVE THE LEVELS OF UNBUNDLING
6 RECOMMENDED IN THE RATEPAYER ADVOCATE'S GENERIC TESTIMONY?

7 A. No, they do not reach all of the recommended unbundling objectives. The distribution
8 services offered to large customers, with daily balancing pursuant to rider "I", do meet
9 these objectives. The DCQ service offered for residential and general service customers
10 meets the minimum objective of being a monthly DCQ service, but it does not meet the
11 objective of complete unbundling of all gas supply services and their separation from
12 distribution service and thus does not fully open balancing to competition.

13 Q. WHAT CHANGES DO YOU RECOMMEND?

14 A. South Jersey should offer a daily requirements service (DRS) as an alternative to the
15 monthly DCQ service it now offers as the only way distribution service can be provided
16 to residential and small commercial customers. A daily requirements service is one in
17 which each aggregator or marketer serving residential or small commercial customers is
18 required to deliver each day the quantity of gas the customers are expected to burn that
19 day, based on the daily weather forecast one day in advance. With this type of daily
20 delivery requirement, aggregators and marketers would provide most of the daily
21 balancing services performed by South Jersey under its DCQ service. South Jersey would
22 continue to be responsible for balancing any unanticipated swings in daily loads, which

1 occur generally because the actual weather does not conform exactly to the weather
2 forecast one day in advance.

3 Q. IS THIS TYPE OF DAILY REQUIREMENTS SERVICE THE SAME AS THE DAILY
4 BALANCING SERVICE SOUTH JERSEY NOW OFFERS TO ITS LARGE
5 CUSTOMERS?

6 A. No, it is not. For large customers, the responsibility for maintaining the necessary daily
7 balance of load and supply rests ultimately with the customer. The customer typically can
8 work with his gas supplier on a daily basis, and the customer also has the option of helping
9 to achieve the required daily balance by adjusting his own load. This option is available
10 because large customers have their loads metered on a daily basis, and the balancing that
11 is required is a match between the customer's actual metered load and the supply actually
12 delivered to the city gate for the customer's account.

13 A daily requirements service is fundamentally different from a daily balancing service
14 because it is designed for residential and small commercial customers whose loads are not
15 metered on a daily basis. It is therefore impossible for the customer to play a role in
16 achieving the needed daily balance between load and supply — even if some customers
17 were willing to manage their own loads (and very few could with existing technology),
18 there would be no way to measure their performance absent daily metering. A daily
19 requirements service is, instead, a way in which aggregators and marketers can be allowed
20 to take from South Jersey the responsibility for managing daily gas supplies to follow their
21 customers' expected loads.

1 Q. DOES THIS VIEW OF THE DAILY REQUIREMENTS SERVICE OPTION HAVE
2 ANY IMPLICATIONS FOR THE WAY SOUTH JERSEY'S PRESENT SERVICE
3 OFFERINGS SHOULD BE UNBUNDLED?

4 A. Yes, it does. For residential and general service customers, balancing should be offered
5 as a wholesale service to suppliers. The overwhelming number of smaller consumers have
6 no interest in or ability to arrange directly for their own balancing services. They will be
7 shopping for these services as part of a package from suppliers who will be offering them
8 a complete and comprehensive gas supply service. Balancing therefore should be offered
9 as an option to suppliers, who will then incorporate it into the complete gas supply service
10 they offer to consumers. Giving suppliers this option will open additional aspects of gas
11 supply service to competition, which should lead to greater efficiency in the provision of
12 gas supply service and ultimately result in lower costs to consumers.

13 Aggregators and marketers should have an opportunity to compete against South
14 Jersey in providing the balancing services that are at present bundled with distribution in
15 South Jersey's DCQ service offerings, which is why South Jersey's distribution service
16 should be unbundled fully from its gas supply offerings.

17 A further implication of this analysis is that South Jersey's unbundled rates for
18 residential and general service should be designed now so that the rates for distribution
19 service are stripped of all gas supply costs. All of the gas supply costs, including those for
20 balancing, should be included in the gas supply rates in the RSG and GSG rate schedules.
21 To the extent that balancing is bundled with distribution service in South Jersey's present
22 DCQ service offerings, the rider "J" balancing charge should be paid by the aggregators

1 and marketers, not by the residential and small commercial customers whose DCQ service
2 is now required to be taken subject to rider “J”.

3 Q. WHEN SHOULD SOUTH JERSEY GAS BE REQUIRED TO OFFER A DAILY
4 REQUIREMENTS SERVICE?

5 A. It should be available for use in the winter of 2000-2001. To achieve this goal, South
6 Jersey should be required to file a proposal for a daily requirements service early next year,
7 along with a cost of service study. An appropriate filing deadline would be March 1,
8 2000, and the required initial implementation date should be October 1, 2000.

9 Q. HAS SOUTH JERSEY PROPOSED UNBUNDLED RATES FOR OTHER SERVICES?

10 A. No, it has not. To comply with the generic recommendations of the Ratepayer Advocate's
11 other witnesses, South Jersey will have to derive unbundled rates for customer account
12 services including metering, billing, billing inquiry and collection as contemplated in the
13 Board's June 25, 1999 Order of Clarification, and should present this information in its
14 scheduled rebuttal testimony. South Jersey will also have to (1) develop and propose
15 tariffs for these services and provide supporting documentation; (2) develop credits and
16 charges associated with the three billing options presently contemplated which are a single
17 bill issued by the utility, separate billing by the utility and the supplier, and a single bill
18 issued by the supplier.

19 **Capacity Assignment, Reliability, and Stranded Costs**

20 Q. WHAT IS SOUTH JERSEY'S POLICY WITH REGARD TO THE ASSIGNMENT OF
21 PIPELINE CAPACITY?

1 A. South Jersey offers to assign year-round long-haul firm pipeline transportation to all of its
2 customers.

3 For the large customers, which I generally define as those who have daily metering,
4 the arrangements for this assignment are in rider “L”, the Firm Pipeline Capacity
5 Assignment Clause. It applies to all the large industrial (LVS) customers and also to large
6 general service customers who elect to have daily metering installed and take balancing
7 service under rider “T”. A similar arrangement in rate CTS is available for the customers
8 using that schedule. The price is the weighted average cost of all of South Jersey's long-
9 haul pipeline transportation.

10 South Jersey states that its policy is also to offer year-round firm transportation
11 capacity assignment to smaller customers or to the aggregators and marketers serving
12 those customers. However, the arrangements for these assignments do not appear in
13 South Jersey's tariff. The tariff should be changed to state that such assignments are
14 available, and establish the terms on which they are offered.

15 Q. IS SOUTH JERSEY PROPOSING MANDATORY CAPACITY ASSIGNMENT?

16 A. Not precisely, but it is proposing something similar. South Jersey is proposing that
17 distribution customers or the marketers serving them must either take assignment or else
18 pay South Jersey to maintain sufficient capacity to serve the customers' loads in the
19 absence of third party supplies.

20 Q. WHAT ARE SOUTH JERSEY'S REASONS FOR THIS PROPOSAL?

21 A. South Jersey believes that it cannot properly discharge its obligations as supplier of last
22 resort unless its on-system peak shaving resources plus its portfolio of pipeline services are
23 sufficient to serve the entire firm design day load of all of its customers, distribution as

1 well as sales. South Jersey thus takes the position that it cannot rely on any third-party gas supplies for its distribution customers, not even w

1 supplies for which they are obligated. Competition cannot provide lower gas supply costs
2 for consumers if South Jersey stockpiles enough pipeline capacity to serve the same
3 distribution customer loads that third-party suppliers are also serving, and if customers
4 then have to pay for this duplication of pipeline capacity.

5 Q. CAN SOUTH JERSEY PROVIDE RELIABLE SERVICE WITHOUT
6 IMPLEMENTING MANDATORY CAPACITY ASSIGNMENT OR MAINTAINING
7 BACKUP CAPACITY FOR ITS DISTRIBUTION CUSTOMERS' LOADS?

8 A. Yes. South Jersey should be able to make other arrangements that will allow it to avoid
9 at least some of the costs of backup capacity.

10 Q. CAN YOU PRESENT SOME EXAMPLES?

11 A. Yes. One possible arrangement would be available for the large distribution customers
12 that I identified previously, all of whom have daily metering. They should be permitted to
13 waive any rights that they may have to purchase gas supplies from South Jersey, and the
14 Company's tariffs should state that they do so by declining to accept full capacity
15 assignment at any time after they have been on distribution service for more than one year.
16 A return to sales service would still be allowed at any time if South Jersey had adequate
17 gas supply capacity, and in any event with appropriate notice giving South Jersey time to
18 obtain more capacity if needed. This requirement should apply to South Jersey's large
19 industrial (LVS) customers, its large electric generation (LVCS and FES) customers, and
20 even its large general service customers using rate CTS. All of these customers are
21 sophisticated enough to understand the implications of making a commitment to
22 alternative gas supplies. Also, there is no daily reliability problem with these large
23 customers because the responsibility for daily balancing lies ultimately with the customer.

1 If a large customer's gas supply fails at a critical time when South Jersey cannot provide
2 a substitute supply, it is feasible for South Jersey to restrict that customer's usage, and if
3 necessary even to enforce the restriction by shutting off the customer's access to South
4 Jersey's distribution system.

5 Q. ARE ALTERNATIVES AVAILABLE ALSO FOR SMALLER CUSTOMERS?

6 A. Yes. First, the aggregators and third party marketers that serve South Jersey's smaller
7 customers are — or should be — obligated to South Jersey by contract and/or by South
8 Jersey's tariff to deliver the supplies required to serve their end-user customers. These
9 third-party suppliers should be required to provide adequate notice before discontinuing
10 their deliveries of gas to South Jersey, so that they cannot simply walk away from their
11 obligation to continue delivering adequate gas supplies at critical times. If South Jersey
12 is not satisfied that financial penalties are sufficient to ensure their performance, it can
13 develop a capacity assignment or other similar alternative for them, which would be similar
14 in purpose to Mr. Kindlick's option II. Another possibility is an arrangement for South
15 Jersey to certify the adequacy of the aggregator's or marketer's firm gas supply resources.
16 In any event, it is the suppliers and not the small customers themselves that are responsible
17 for the adequacy of supply at critical times.

18 Q. WHAT ARE YOUR RECOMMENDATIONS WITH REGARD TO SOUTH JERSEY'S
19 PROPOSAL THAT DISTRIBUTION CUSTOMERS NOT TAKING CAPACITY
20 ASSIGNMENT BE REQUIRED TO PAY FOR HAVING SOUTH JERSEY
21 MAINTAIN BACKUP CAPACITY?

22 A. South Jersey should not be allowed to recover the costs of backup capacity after
23 December 31, 1999, which is two months beyond the date agreed to in its LGAC

1 proceeding. By then, South Jersey should be able to establish the alternative arrangements
2 I have recommended. If South Jersey believes that backup capacity will still be needed
3 after that date, it should be required to file a petition with the Board demonstrating the
4 need for backup capacity to serve the loads of its distribution customers, and explaining
5 which customer classes should be obligated to pay for that backup capacity.

6 Q. IS SOUTH JERSEY SEEKING ANY STRANDED COST RECOVERY IN
7 CONNECTION WITH ITS PORTFOLIO OF PIPELINE SERVICE ENTITLEMENTS?

8 A. No, not in this proceeding, but South Jersey did include a place-holder for this purpose in
9 its proposed new rider “H”, the Unbundling Transition Charge (UTC).

10 Q. ARE SOUTH JERSEY'S PROPOSED STRANDED COST RECOVERY POLICIES
11 CONSISTENT WITH THE RATEPAYER ADVOCATE'S GENERIC POLICY
12 RECOMMENDATIONS ON THIS SUBJECT?

13 A. No, they are not. South Jersey's proposed rider “H” includes the provision that:

14 “The UTC will be established to recover: ... (3) all costs (i) which are associated with
15 the Company's February 9, 1999 portfolio of gas supply and pipeline capacity; and (ii)
16 which were incurred by the Company to serve customers who were sales service
17 customers of the Company, and who have switched to transportation service
18 subsequent to February 9, 1999.”

19 This provision includes far too broad a definition of stranded gas supply and pipeline
20 capacity costs. If rider “H” is to contain a specific definition of stranded costs, it should
21 comport with the Ratepayer Advocate's generic policy recommendation that no stranded
22 cost recovery be allowed until the utility has demonstrated that it has actual stranded costs
23 and has taken all possible steps to mitigate the problem. The Ratepayer Advocate's policy

1 is also that mandatory capacity assignment or other recovery mechanisms should then be
2 considered.

3 Q. WHAT CHANGES DO YOU RECOMMEND?

4 A. Item (3) should be deleted from the proposed UTC. Alternatively, if a place-holder is
5 needed, item (3) should be rewritten to apply merely to “(3) such stranded gas supply and
6 pipeline capacity costs as the Board may allow.”

7 **Cost Allocation**

8 Q. HAS SOUTH JERSEY DEVELOPED FULLY UNBUNDLED RATES THAT
9 COMPORT WITH THE RATEPAYER ADVOCATE'S GENERIC
10 RECOMMENDATIONS ON COST ALLOCATION AND YOUR ANALYSIS OF
11 SOUTH JERSEY'S UNBUNDLED SERVICE OFFERINGS?

12 A. No, it has not.

13 Q. WHAT IS REQUIRED TO DEVELOP FULLY UNBUNDLED COSTS FOR SOUTH
14 JERSEY?

15 A. To develop fully unbundled costs, the gas supply costs and the distribution service costs
16 in South Jersey's bundled rates must be separated from each other.

17 Q. WHAT ARE THE GAS SUPPLY COSTS IN SOUTH JERSEY'S PRESENT RATES?

18 A. Most of the gas supply costs are those reviewed in South Jersey's LGAC proceedings.
19 They are the amounts identified as “COG” (cost of gas) in Company witness Kindlick's
20 Schedule DAK-2. This column shows LGAC-reviewed costs recovered in South Jersey's
21 base rates as well as those in the LGAC charge itself, and those in various other rate
22 components. The only other gas supply costs that I have identified are the \$1.6 million of

1 storage inventory carrying costs that Company witness Heintz concludes should be
2 allocated entirely to gas sales. These costs are at present recovered in the “non-gas”
3 components of South Jersey's rates, which are in the “Base Rate” columns of
4 Mr. Kindlick's Schedule DAK-2. The gas supply costs in the “non-gas” components of
5 South Jersey's base rates are approximately \$0.05 per Dt or \$0.005 per therm of total
6 residential and general service throughput, as shown in Mr. Heintz's Schedule 8.
7 However, if the same \$1.6 million of storage inventory carrying costs is related only to the
8 residential and general service sales volume instead of total throughput, it is \$0.06 per Dt.

9 Q. IF THESE STORAGE INVENTORY CARRYING COSTS ARE RECOVERED IN
10 SOUTH JERSEY'S GAS SUPPLY RATES INSTEAD OF ITS RATES FOR
11 DISTRIBUTION SERVICE, WILL THE RATE DESIGN FIT THE “FULL MARGIN”
12 PRINCIPLE RECOMMENDED BY COMPANY WITNESS KINDLICK?

13 A. No.

14 Q. WOULD THIS DEPARTURE FROM FULL MARGIN RATES CREATE A REVENUE
15 EROSION PROBLEM?

16 A. No, it should not. As more and more customers select alternative gas suppliers, there will
17 be less and less need for storage withdrawals as a baseload component of gas supply
18 because aggregators and marketers are required to deliver the average daily normal
19 weather loads of the customers they serve in each month of the year. As a consequence,
20 South Jersey should be able to reduce its average storage inventory balances, and its
21 inventory carrying costs will therefore decrease. If South Jersey has correctly identified
22 the fraction of storage inventory applicable to balancing for distribution customers, then

1 the inventories and inventory carrying costs applicable to gas supply will decline directly
2 in proportion to the decrease in gas sales, so there will be no problem of revenue erosion.

3 **Basic Gas Supply Service**

4 Q. WHAT RATES IS SOUTH JERSEY PROPOSING TO CHARGE FOR BASIC GAS
5 SUPPLY SERVICE?

6 A. Company witness Kindlick proposes that the basic gas supply rates be the bundled sales
7 rates for each customer class.

8 Q. DO THESE RATES COMPORT WITH THE DEFINITIONS IN THE ACT?

9 A. No, they do not. Basic gas supply service is defined initially as gas supply service, and the
10 definition then goes on to explain the “basic” part of the definition. “Gas supply service”
11 is itself a defined term in the Act, which states that it “does not include any regulated
12 distribution service” (both definitions are in section 3 of the Act). Section 10.r of the Act
13 then states that the charges for basic gas supply service shall be based on the cost to the
14 utility of providing basic gas supply service.

15 South Jersey's proposed basic gas supply rates include much more than the cost of
16 providing basic gas supply service because they include the entire cost of South Jersey's
17 gas distribution service, which the Act explicitly excludes from any gas supply service,
18 basic or not.

19 Q. WHAT MODIFICATIONS DO YOU RECOMMEND?

20 A. The initial modification is to set basic gas supply rates to recover the gas supply costs that
21 I have identified in my discussion of South Jersey's cost allocation. These rates are as

1 close as we are likely to come in the present proceedings to a properly constituted set of
2 basic gas supply charges for South Jersey.

3 Q. WHAT FURTHER MODIFICATIONS WOULD ALSO BE APPROPRIATE?

4 A. Section 10.r of the Act states in part:

5 Gas supply procured for basic gas supply service by a gas public utility shall be
6 purchased at prices consistent with market conditions. The charges assessed to
7 customers for basic gas supply service shall be regulated by the board and shall be
8 based on the cost to the utility of providing such service, including the cost of gas
9 commodity and capacity purchased at prices consistent with market conditions by the
10 gas public utility in the competitive wholesale marketplace

11 There is a possible problem here because some of the gas commodity and capacity
12 purchased by South Jersey for its gas supply service is purchased at prices higher than
13 those consistent with current market conditions, despite the injunction in the first sentence
14 quoted from section 10.r. South Jersey should address this problem in its rebuttal
15 testimony.

16 Q. IS SOUTH JERSEY PROPOSING TO OFFER ANY COMPETITIVE GAS SUPPLY
17 OPTIONS?

18 A. South Jersey Gas Company does not now offer a fixed price option or any other gas
19 supply options that would be deemed competitive services, and it is not proposing to do
20 so. Affiliates of South Jersey do offer gas supply options, which is consistent with the
21 Ratepayer Advocate's generic policy recommendations on this subject.

22 Q. IS SOUTH JERSEY PROPOSING ANY GAS SUPPLY RATE DIFFERENTIALS FOR
23 DISTRIBUTION CUSTOMERS WHO MAY REQUIRE EMERGENCY GAS
24 SERVICE OR WHO SEEK TO RETURN TO SALES SERVICE?

1 A. No, and it has no such differentials in its present rates. These policies are also consistent
2 with the Ratepayer Advocate's generic recommendations.

3 **Societal Benefits Charge and Universal Service Fund**

4 Q. WHAT IS SOUTH JERSEY'S PROPOSAL CONCERNING ITS SBC?

5 A. South Jersey's proposed SBC is in rider "E". It includes the charges for its gas plant
6 remediation and DSM program costs, and also a place holder for consumer education
7 costs. South Jersey is proposing to reset the SBC by making a rate filing in July of each
8 year. The Company has not stated whether there would be a revenue reconciliation as part
9 of the SBC procedure.

10 Q. WHAT INITIAL SBC RATES IS SOUTH JERSEY PROPOSING?

11 A. The proposed initial SBC rates vary between \$0.0032 and \$0.0044 per therm depending
12 upon the rate schedule. These rates incorporate RAC charge between \$0.0030 and
13 \$0.0032 per therm and a DSM charge between \$0.0000 and \$0.0012, again depending
14 upon the applicable rate schedule. These charges are the RAC and DSM rates which were
15 in effect at the date of the Act. They appear in South Jersey's existing RAC (rider "G")
16 and DSMC (rider "K"), which South Jersey would retain. The proposed initial SBC rates
17 do not include any customer education charges.

18 Q. HOW DOES USE OF THE EXISTING RAC AND DSMC RATES RELATE TO THE
19 SBC PROVISIONS IN THE ACT?

20 A. Section 12.a states that the SBC shall be collected as a charge on all gas customers. South
21 Jersey's proposed matrix approach for developing its SBC rates from the existing RAC and
22 DSMC charges appears to be inconsistent with this requirement. As explained in the

1 Ratepayer Advocate's generic testimony, when the remediation and DSM costs are placed
2 in the SBC, they should be recovered uniformly from all customer classes.

3 Q. WHAT IS SOUTH JERSEY'S PROPOSED CONSUMER EDUCATION COMPONENT
4 OF THE SBC?

5 A. South Jersey has already received charges from the Board's consultant for initial work on
6 the consumer education program. Under an Order issued by the Board on June 25, 1999,
7 South Jersey and the other gas and electric utilities have been allowed to begin deferred
8 accounting of consumer education costs. However, the Act specifies that the consumer
9 education costs to be included in the SBC are to be determined by the Board. In
10 accordance with the recommendations contained in Mr. LeLash's testimony, South Jersey
11 should, in its rebuttal testimony, specify and quantify the costs of specific consumer
12 education activities proposed to be included in the SBC.

13 Q. HAS SOUTH JERSEY SOUGHT DEFERRED ACCOUNTING FOR ANY OF ITS
14 OTHER SBC COMPONENTS, OR ACCRUED INTEREST ON ITS UNCOLLECTED
15 SBC BALANCES?

16 A. No, it has not. However, for the reasons set forth in the Ratepayer Advocate's generic
17 testimony, the Board should only authorize recoveries of SBC components after an
18 appropriate hearing, and there should be no interest accrued on under-recovered balances.

19 Q. DID SOUTH JERSEY IDENTIFY ANY EXISTING SOCIAL PROGRAMS TO BE
20 INCLUDED IN THE SBC?

21 A. No, it did not. The Act states that the SBC should include the costs of any social
22 programs approved by the Board prior to April 30, 1997. South Jersey should therefore

1 identify such programs and present their costs for inclusion in the SBC when it files its
2 rebuttal testimony.

3 Q. SHOULD SOUTH JERSEY MAKE ANY OTHER CHANGES TO ITS PROPOSED
4 SBC?

5 A. Yes. South Jersey has included a provision for any other expenses that the Board may
6 authorize it to recover there. Because the Act makes no provision for any such “other
7 expenses” category, it is contrary to the Act for South Jersey to include this category in
8 its SBC. Also, as explained in the Ratepayer Advocate's generic recommendations, the
9 SBC should explicitly state that there will be an annual reconciliation of SBC revenues and
10 the costs they are designed to recover.

11 Q. HAS SOUTH JERSEY ADDRESSED THE IMPLEMENTATION OF A UNIVERSAL
12 SERVICE FUND?

13 A. South Jersey’s filing makes no mention of a USF. Accordingly, for the reasons set forth
14 in the Ratepayer Advocate's generic testimony, the Company should be required to present
15 specific proposals for a USF.

16 Q. DOES THIS CONCLUDE YOUR TESTIMONY RELATING SPECIFICALLY TO
17 SOUTH JERSEY GAS COMPANY?

18 A. Yes, it does.